ADDENDUM
IV

APPLICATION

FOR

MULTI-FAMILY HOUSING

DIRECT LENDING

Program Statements updated February 25, 2004

Changes to Exhibit list made January 31 and March 14, 2005

Includes:

- **A. "Direct Lending Rental Production Programs" brochure**
- **B. HOME Team Advantage Program Statement**
- **C. Site Selection Criteria**
- **D. Requirements for Errors and Omissions Insurance For Architects and Engineers**
- **E. "Fast Track" Processing Requirements**
- **F. Development Team Criteria for "Fast Track"**

NOTE: There are now separate checklists for each of the following programs:

- **Addendum I - LIHTC Program**
- **Addendum III - Special Needs Rental**
- **Addendum IV - Multi-Family Direct Lending/HOME Team Advantage**
- **Addendum V - Modified Pass Through Program**
- **Addendum VII - Section 236 and Section 202 Preservation Programs**

Please use the checklist applicable to the program for which you are applying.

The following items **MUST** be submitted if applicable to the project and/or for points to be given to the project. To indicate each exhibit submitted, place a check mark in the box provided and return a copy of this checklist with your application. Each submitted exhibit must be tabbed with the appropriate corresponding number from the checklist. **APPLICANTS APPLYING FOR MORE THAN ONE TYPE OF FINANCING MUST INCLUDE ALL APPLICABLE CHECKLISTS' EXHIBITS.**

This checklist is to be used for the Multi-Family Direct Lending and HOME Team Advantage programs. Two copies of all exhibits are required for applications for Multi-Family Direct Lending.

EXHIBIT CHECKLIST

Addendum IV:

√	#	Multi-Family Direct Lending/HOME Team Advantage
	1	**A narrative description of the project** which includes the type of project; location; type of financing; tenants served, bedroom mix; local, federal or state subsidies; and other relevant information.
	2	**Land Control** - Documentation, signed by all applicable parties, in the form of warranty deed, exclusive option to purchase, land contract, etc., which evidences ability to maintain site control for 120 days from the date of application submission, with additional extensions available.
	3a	**Zoning** - Documentation from the appropriate local official on official letterhead (dated within 60 days of application submission), identifying the address of the project, the property's current zoning designation and an explanation of whether or not the project is permitted under the zoning ordinance. If the project is not currently properly zoned, what, if any, steps are in process to obtain proper zoning for the proposed development. The documentation must include a timetable for rezoning.
	3b	**Zoning Map**
	3c	**A certified copy of the current Community Zoning Ordinance**
	4a	**Site Utility Availability (Electricity, Fuel, Water, Sanitary Sewer, and Storm Sewer)** - Documentation from the municipality and/or local utility companies on their letterhead regarding utility availability and adequacy to serve the site, including whether such is currently available or will be available.

EXHIBIT CHECKLIST

Addendum IV:

√	#	Multi-Family Direct Lending/HOME Team Advantage
	4b	**Utilities maps,** showing location, depth, sizing, etc., of all utilities serving the site and location of roads and any easements.
	5	**Market Data** - See Tab C for specific guidelines. Two copies must be submitted and dated within six months of application submission. **SUBMIT WITH THIS APPLICATION IF AVAILABLE. WILL BE REQUIRED DURING LOAN PROCESSING.**
	6	**Environmental Assessment** - Level 1 Environmental Assessment or, if necessary, a Level II with a remediation plan. Dated within 6 months of application submission. See Tab D for specific requirements. **SUBMIT WITH THIS APPLICATION IF AVAILABLE. WILL BE REQUIRED DURING LOAN PROCESSING.**
	7	**Recent aerial photograph of the site** that is annotated to name the nearby landmarks and has the site clearly outlined.
	8	**Mortgagee's commitment** - Required. The commitment must be current and in the estimated amount of the mortgage loan and must include the pending disbursement language of the title company. <u>Any liens, easements, encumbrances, or other exceptions noted in the title insurance commitment must be researched, and readable copies of the recorded documents must be provided</u>.
FOR EXHIBITS 9A THROUGH 9C, DUPLICATION OF INFORMATION IS <u>NOT</u> NECESSARY		
	9a	**Confirmation of Secondary Financing** - if applicable. Proposals which rely on some form of secondary financing to achieve feasibility must be accompanied by a detailed explanation and a confirmation from the source of that secondary financing that the additional funds have been applied for and are (or are expected to be) available.
	9b	**Federal, State or Local Government Financing** - Letter from local municipality stating that application has been submitted and amount of request.
	9c	**Grants/Other Subsidies** - Letter from proposed grantor stating that application has been submitted and amount of request.
	10	**Community Map** - A map showing the major streets in the community, identifying the precise location of the site as well as the location of various facilities and amenities such as food stores, drug stores, schools, social services, railroads, parks, churches, etc. in the immediate neighborhood. This community map must be in an 8 ½ " x 11" format, ready for copying and distribution to MSHDA staff and private appraisers without further required annotation.
	11	HUD Form 2530, **"Previous Participation Certificate,"** for the sponsor(s), builder, and property management firm. (This form is available from MSHDA upon request or the HUD website @ www.hudclips.org
	12a	**Affirmative Fair Housing Marketing Plan** - See Tab P for AFHMP guidelines. **SUBMIT WITH THIS APPLICATION IF AVAILABLE. WILL BE REQUIRED DURING LOAN PROCESSING.**
	12b	**Preliminary Equal Employment Opportunity Plan** - See Tab F for guidelines

EXHIBIT CHECKLIST

Addendum IV:

√	#	Multi-Family Direct Lending/HOME Team Advantage
	13	**Nonprofit Documentation** (where applicable.) a) Documentation of Federal 501(c)(3) or (4) status from the IRS, if applicable. b) A certified copy of the Articles of Incorporation dated within 30 days of application submission. c) Copy of by-laws d) List of the board of directors, if applicable; indicate which are representatives of the local community. e) An executed agreement between the sponsor and the non-profit if the project is a joint venture. f) Description of the nonprofits previous experience in housing. Must complete form provided on Page 28. g) Current Certificate of Good Standing dated within 30 days of application submission. h) Map outlining service area of nonprofit i) Narrative describing the non-profit's involvement in the local community j) Proof of CHDO approval (if applicable)
	14	**Ownership Entity Formation** - Certified copy (dated within 30 days of application submission) of the certificate of limited partnership and any amendments on file with the Department of Labor & Economic Growth, Bureau of Commercial Services, and a copy of the limited partnership agreement with all amendments. **SUBMIT WITH THIS APPLICATION IF AVAILABLE. WILL BE REQUIRED DURING LOAN PROCESSING.**
	15	**Tax Abatement** - Proof of tax abatement or a letter of tax abatement support from local taxing jurisdiction, if required. **SUBMIT WITH THIS APPLICATION IF AVAILABLE. WILL BE REQUIRED DURING LOAN PROCESSING.**
	16a	**Site Analysis** – Provide one copy to MSHDA and one copy to each Design Review Consultant. (See MSHDA Standards of Design) **SUBMIT WITH THIS APPLICATION IF AVAILABLE. WILL BE REQUIRED DURING LOAN PROCESSING.**
	16b	**Site Plan Approval** - A letter signed by the appropriate official of the municipality on its letterhead which identifies the project's name and address and states that final site plan approval has been granted; or, if site plan approval has been granted with contingencies, a Statement in the letter stating that the contingencies do not have to be approved by the planning board but may be approved at a staff level. **SUBMIT WITH THIS APPLICATION IF AVAILABLE. WILL BE REQUIRED DURING LOAN PROCESSING.**
	16c	**Copy of Site Plan** **SUBMIT WITH THIS APPLICATION IF AVAILABLE. WILL BE REQUIRED DURING LOAN PROCESSING.**
	17	**Proof of Local Taxation Rate (if no tax abatement)** For acquisition/ rehabilitation a tax bill will meet requirement.
	18	**Renaissance Zone (if applicable)**- Letter on official letterhead and signed by an official of the local municipality which verifies that the property is in a designated Renaissance Zone.
	19	**Architects Errors and Omissions Professional Liability insurance**. Include both the current certificate of insurance and a copy of the policy.
	20	**Certified copy of city or township charter.**

EXHIBIT CHECKLIST

Addendum IV:

√	#	Multi-Family Direct Lending/HOME Team Advantage
	21	**ALTA Survey -** Refer to MSHDA's Legal Form 026 for survey standards. Ensure that any encumbrances and easements of record are included. **(TAB U)** **SUBMIT WITH THIS APPLICATION IF AVAILABLE. WILL BE REQUIRED DURING LOAN PROCESSING.**
	22	**Soil Conditions** - Proof of engineering report of soil boring test. **SUBMIT WITH THIS APPLICATION IF AVAILABLE. WILL BE REQUIRED DURING LOAN PROCESSING.**
	23	**Resumes** for all members of the development team and **professional license** for the architect. A current **Michigan Residential Builders License** for the contractor.
	24	**Proof of Water Charges**
	25	**Proof of Sewer Charges**
	26	**Other Construction Charges**
	27	**Architectural Plan and Specifications** **SUBMIT WITH THIS APPLICATION IF AVAILABLE. WILL BE REQUIRED DURING LOAN PROCESSING.**
	28	**Schematics** if available **SUBMIT WITH THIS APPLICATION IF AVAILABLE. WILL BE REQUIRED DURING LOAN PROCESSING.**
	29	**Financial statements** for the sponsor(s) and builder. Individual sponsors must submit the form Individual Financial Statement (the form is available from MSHDA upon request). Financial statements must be current, which is defined as not more than six months earlier than the date the proposal is submitted. MSHDA requires that financial statements be updated every six months throughout the development and construction process.
	30	**Contractor's Qualification Statement** (AIA Document A305 - available from MSHDA upon request).
	31	**Letter of Intent and/or Syndication Partnership Agreement –** A copy of the letter of intent and/or the syndication partnership agreement (to include pay-in schedule) from the equity provider. **SUBMIT WITH THIS APPLICATION IF AVAILABLE, WILL BE REQUIRED DURING LOAN PROCESSING.**
	32	**Trade Payment Breakdown –** A copy of MSHDA's trade-payment-breakdown form. **(TAB AA)** **SUBMIT WITH THIS APPLICATION IF AVAILABLE, WILL BE REQUIRED DURING LOAN PROCESSING.**

EXHIBIT CHECKLIST

Addendum IV:

√	#	Multi-Family Direct Lending/HOME Team Advantage
	33	**Owner-Architect Agreement for Design and Administration Services –** Submit fully executed Legal Form 023. **(TAB BB)** **SUBMIT WITH THIS APPLICATION IF AVAILABLE, WILL BE REQUIRED DURING LOAN PROCESSING.**
	34	**Feasibility Certificate for "Fast Track" Design Compliance –** For proposals approved for Fast Track Processing, the architect must submit this form. In addition, any non-conformance to the MSHDA Standards of Design must be identified on this document, and the Authority's Chief Architect must approve waivers for these items. **(TAB CC)** **WILL BE REQUIRED DURING LOAN PROCESSING.**
	35	**Initial Closing Design Architect's Certificate –** For proposals approved for Fast Track Processing, the architect must execute and submit this document prior to initial Mortgage Loan Closing. **(TAB DD)** **WILL BE REQUIRED DURING LOAN PROCESSING.**
	36	**Surveyor's Certificate of Facts –** Legal 025, Dated 5/01. **(TAB EE)** **WILL BE REQUIRED DURING LOAN PROCESSING.**

ADDENDUM IV

Application for Debt Financing for TEAM Tax-Exempt Bond,
Taxable Bond, and HOME TEAM Advantage Direct Lending Programs

APPLICATION FILING REQUIREMENTS

- A non-refundable application fee of $500 must accompany the application.

- **Two copies** of the primary application and the required exhibits must be submitted.

- This is not an application for Housing Tax Credit. Two separate applications will be required. A "9%" Housing Tax Credit application must be submitted as required under the competitive funding rounds of the Housing Tax Credit Program, but in no case may it be submitted prior to formal "acceptance for processing" for debt financing. A "4%" Housing Tax Credit application must be submitted at approximately the time of mortgage loan commitment, with proforma numbers reflecting that debt financing commitment.

- The first page of the primary application should indicate the specific direct lending program (Taxable Bond, TEAM, or HOME TEAM Advantage) being applied for.

- If applying for HOME Team Advantage financing, please refer to Addendum II for general information on using HOME for rental housing.

- As noted in the Exhibit Checklist, and unless they are available at the time of submission, several of the required exhibits may be completed and submitted during the underwriting process. There are also three exhibits that pertain only to applications for HOME Team Advantage assistance.

To assist in the filing of an application, this addendum includes:

- Direct Lending Rental Production Programs description

- HOME Team Advantage program description, including Design Appendix No.1 and a listing of targeting criteria

- MSHDA's "Site Selection Criteria," dated February 1, 1999

- Requirements for Errors and Omissions Insurance for Architects and Engineers

- Fast Track Processing Requirements, including Criteria for Development Team Members

In addition, please reference the following:

- "Income Limits by Household Size by County," published by HUD, can be found under **TAB "E"**.

- A listing of "Eligible Distressed Areas," can be found under **TAB "H"** .

- MSHDA's Environmental Review process and requirements are found under **TAB "D"**.

- MSHDA's Market Analysis Guidelines are found under **TAB "C"**.

- "Survey Requirements/Language to be Incorporated on Survey," is under **TAB "U"**.

The form for Individual Financial Statement and the Contractor's Qualification Statement (AIA Form A305-1986) are available upon request, as are various policy and program statements related to the Direct Lending programs.

For more information please contact the Multifamily Development Division at (517) 373-6880 in Lansing or (313) 456-3597 in Detroit

<u>Direct Lending Rental Programs</u>

Revised February 25, 2004

MSHDA offers three direct lending programs to finance rental housing. Project requirements vary by location of the property, the population to be served, and the program under which the project is financed. For information about the Sections 236 and 202 Preservation Programs, please see Addendum VII.

TEAM Lending: In this program, MSHDA tax-exempt financing is available for developments in which between 40% and 100% of the units are targeted to lower income households. For loans of at least 50% of total development cost, the federal 4% Housing Tax Credit is available to assist in the financing.

HOME Team Advantage Program: This program combines tax-exempt financing and federal HOME funds to encourage targeted rental housing development in communities in non-urban areas of the state. A checklist of targeting criteria and a listing of urban areas of the state is included with the attached HOME Team Advantage Program Statement.

Taxable Bond Program: This program combines application for the federal 9% Housing Tax Credit with MSHDA financing for rental developments in which both occupancy and rent levels for targeted units are restricted to households with incomes at or below 60% of area median.

For more information regarding the Low Income Housing Tax Credit program, contact Norm Harrod with the Authority's Office of Legal Affairs at (517) 335-2018. For information about the Modified Pass Through Program, please contact Ted Rozeboom with the Authority's Office of Legal Affairs at (517) 373-8295. Additional information is available on MSHDA's website at <u>www.michigan.gov/mshda</u>.

WORD DEFINITIONS

Sponsor and developer are used interchangeably. A sponsor may be an individual, a group of individuals, a corporate entity, or some combination of these. The Authority requires a single point of contact between its development staff and the sponsor. Prior to loan commitment, the sponsor must form a legal entity that is an "eligible borrower" under the Authority's Act. Most often, the sponsor/developer goes on to become the general partner in a "limited dividend housing association limited partnership" that actually owns the project. When the project is completed, the terms "sponsor" and "developer" are still used, but often carry the meaning of the terms "borrower", "owner", "general partner", or "mortgagor".

"Direct Lending" refers to the programs in which the Authority will underwrite a loan, finance it with Authority's general obligation bonds, and retain it in MSHDA's portfolio. The TEAM Program, The HOME Team Advantage Program, and the Taxable Bond Program are all direct lending programs.

WHAT KIND OF HOUSING IS FINANCED?

Developments may be designed for exclusive occupancy by senior citizens or they may be oriented to a family market. "Mixed" projects, with some buildings designated for the elderly and others for families, are difficult to finance and/or to operate under federal fair housing laws.

Except for MSHDA's Section 236 and Section 202 Preservation Programs, MSHDA generally does not finance the acquisition and moderate rehabilitation of existing rental properties under its direct lending programs. Financing for proposals of this nature may be available under the Modified Pass Through Program described in Addendum V or the Section 236 and Section 202 Preservation Addendum VII.

Adaptive Reuse: The Authority will consider financing the adaptive reuse of non-residential structures for housing (such as schools, hotels, or commercial buildings). Since the cost of the project will likely exceed that of new construction, other sources of funds such as foundation grants, local HOME or CDBG, or historic tax credits should be sought, in addition to MSHDA financing. Proposals of this nature almost always experience unforeseen construction conditions and require substantial experience and financial strength on the part of the development team.

Ineligible Projects: The Authority does not finance nursing homes, adult foster care homes, student housing, transient housing, single room occupancy, or "assisted living" facilities for the elderly which rely on the "private pay" market and which mandate the purchase of meals and/or other services as a condition of occupancy. Also, MSHDA will not finance scattered-site, single-family rental properties.

Size of Developments: Developments must be between 50 and 150 units in size. Proposals for 49 units or less are considered under the "HOME Team Advantage" Program (see attached program description).

Modest Design: Developments must be able to successfully compete in the marketplace, and the housing must be of modest cost and design. The Authority will not finance "luxury" units defined as 1) containing amenities not generally available in the rest of the development or in the market area, 2) constructed using materials or fixtures of substantially higher cost than those generally used in the development or in comparable projects, or 3) containing significantly greater square footage than other units in the development or in the immediate market area having the same number of bedrooms.

Market Determination: The proposed rents must be supported by a professional, independent market analysis and must be sufficient to meet debt service and normal operating expenses. The impact of the proposed housing on other MSHDA and standard housing developments in the area will also be a factor in accepting proposals for financing. Currently, there are no federal subsidy programs available to reduce the actual rents paid to a percentage of the residents' income.

Construction Financing: The Authority provides construction financing in conjunction with its permanent financing using a single underwriting process and does not typically provide end-financing only.

WHO CAN RECEIVE A LOAN?

Nonprofit housing corporations and “limited dividend housing associations” are eligible borrowers under the Authority’s Act. Individuals are not eligible borrowers.

WHAT IS NEEDED TO APPLY FOR FINANCING?

Combined Application: The Authority's “Combined Application for Rental Housing Programs” contains all the forms and exhibits necessary to apply for both housing tax credits and debt financing.

Applications for MSHDA financing must be complete and include current documentation, with the exception of a market study, survey, and level one environmental assessment of the site. Two copies of the debt financing application and all of the exhibits identified in Addendum IV are required. (It is necessary to file a complete subsequent application for Housing Tax Credit.)

In addition to this core application form and checklist, Addendum IV of the Combined Application includes copies of Authority policies pertaining to the direct lending programs and provides further information on making an application. (Addendum V provides further information on the Modified Pass-Through Program.)

Development Team: A full development team must be named in the initial proposal, including an architect, a site planner, an attorney, a general contractor, and a management and marketing agent. The entire team must be professionals with experience in the type of proposal being submitted. Where adaptive reuse is being proposed, the experience of the architect and the builder are especially critical. The owner/developer is ultimately held responsible for the actions and performance of all of the development team members.

Financial Requirements: The sponsor/owner of the development must have a net worth of at least five percent of the proposed mortgage and sufficient liquid assets to meet the cash closing requirements. For nonprofit sponsors, this requirement does not apply. The financial requirements for joint ventures will be subject to the financial requirements of the entity(s) with a majority of interest in the development (51% or greater).

The general contractor must have enough working capital to meet the day-to-day operating requirements of the job. The Authority requires contractors to have three percent of the proposed contract available in liquid assets. The contractor will also be required to post either a letter of credit ensuring the successful completion of the job equal to 25 percent of the construction contract or separate, 100 percent, performance and payment bonds. MSHDA may require evidence of the builder's bonding capability at any time in the development process. Contractors doing business with MSHDA for the first time will have all disbursements handled through a title company to assure compliance and understanding with MSHDA’s disbursement procedures and Michigan’s construction lien law, unless the contractor has successfully completed a 48 unit or larger rental development in Michigan evidencing satisfactory performance in the payment of subcontractors.

WHAT FEES ARE CHARGED BY MSHDA?

Application Fee: A non-refundable $500 application fee must be submitted with any proposal for the direct lending programs. This fee is waived for nonprofit sponsors. The application fee for joint ventures is determined by the status of the partner with at least 51% interest in the development.

Commitment Fee: The Authority charges a commitment fee of two percent of the mortgage loan, which is a mortgageable cost. If construction loan financing is obtained from a third party, the Authority will charge (and include in the mortgage) a one percent permanent loan commitment fee and a one percent processing and construction management fee.

A portion of this commitment fee, one-quarter of one percent of the mortgage, is charged twice - once when the Authority formally considers recommended mortgage loan feasibility, and again when commitment is recommended for Authority approval. These two "filing fees" must be paid in cash and are non-refundable if the loan does not close. However, they will be reimbursed to the developer from the mortgaged commitment fee at the time of initial loan closing. These filing fees are deferred until mortgage loan closing for non-profit sponsors.

Cash at Closing: There is a minimum cash to close requirement of 1.5 percent of the total development cost. The actual closing requirements, in cash, letters of credit, and unconditional promissory notes from limited investors, will depend upon the specifics of the proposed development, the program under which it is financed, and the results of the Authority's underwriting process. For projects financed with tax-exempt bonds, land already owned by the developer may be required to be contributed as an equity investment at a value established by appraisal.

LIHTC Fees:

Application: All applications must be accompanied by cash or a check in an amount equal to $35 for each proposed low income unit, with a $1,500 maximum limit.

Reservation/Commitment: The Authority will later bill a fee equal to 6% of the annual tax credit dollar amount awarded to a project. A sum equal to 3% of the annual tax credit dollar amount shall be billed at the time of Reservation. The remaining 3% will be billed at Commitment.

Compliance Monitoring:

A compliance monitoring fee of $300 per low income unit, which amount will cover the entire monitoring period, will be billed prior to issuance of Form 8609.

WHAT ARE MSHDA'S LOAN TERMS?

Interest Rates: The interest rates charged by MSHDA depend upon bond market conditions and may change from time to time, current rates are published on MSHDA's website. The rate quoted when a proposal is accepted for processing will not be subject to increase for six months. If a development proposal has not achieved mortgage loan commitment within six months of acceptance for processing and MSHDA's rate of lending has increased, the currently applicable rate will be substituted for the rate at acceptance. The Executive Director may consider requests for rate extensions for good cause.

TEAM Lending: The tax-exempt TEAM Lending program rate is currently 5.5 percent, fully amortizing over a 35-year loan term for all developments. The Authority's construction loans are offered at the same interest rate. For development proposals located within “eligible distressed areas”, mortgage loans will have a current "pay rate” of 5.0 percent, with the difference between the 5.0 percent interest charged and the 5.5 percent program rate accruing and payable upon full payment of the original mortgage, sale or refinancing. (A definition and listing of “eligible distressed areas” is attached.)

HOME Team Advantage: The HOME Team Advantage Program is currently 4.5 percent, fully amortizing over a 35-year term for projects of less than 50 units located in eligible rural areas. Rehabilitation projects in rural areas up to 100 units will also be considered. For development proposals located within “eligible distressed areas”, mortgage loans will have a current “pay rate” of 4.0 percent, with the difference between the 4.0 percent interest charged and the 4.5 percent program rate accruing and payable upon full payment of the original mortgage, sale or refinancing. (A definition and listing of “eligible distressed areas” is attached). HOME assistance may also be available. Please refer to the attached HOME Team Advantage Program Statement.

Taxable Bond: Mortgage loans under the Taxable Bond program will be made at a fixed interest rate of 7.0 percent and will be fully amortizing, with 35-year terms. For development proposals located within "eligible distressed communities”, mortgage loans will have a current "pay" rate of 6.5 percent with the difference between the 6.5 percent charged and the 7.0 percent program rate accruing and payable upon full payment of the original mortgage, sale or refinancing.

Loan Limits: Except in unusual circumstances and only for proposals in “eligible distressed areas,” MSHDA’s loans are limited to 110 percent of the applicable for-profit HUD 221(d)(3) Mortgage Limits, as amended from time to time by HUD. These loan limits may be found at TAB I.

Under the tax-exempt lending programs, for-profit sponsors can receive a mortgage loan of up to 90 percent of the total development cost, subject to the above limitation. Any proposal involving the syndication or sale of Housing Tax Credit is characterized as a for-profit venture, even if the developer or the general partner of the partnership that owns the project is a nonprofit group. "Total development cost" is an inclusive statement of all uses of cash necessary to complete the development.

Under the Taxable Bond program, MSHDA’s loans are limited to 70 percent of total development cost or (as with the TEAM Program) 110 percent of the applicable for-profit HUD 221(d)(3) Mortgage Limits, whichever is the lower.

WHAT ARE THE AUTHORITY’S UNDERWRITING STANDARDS?

The Authority’s underwriting standards apply to all of the direct lending programs and are based on the “Recommended Practices” for the underwriting of Housing Tax Credit as adopted by the National Council of State Housing Agencies.

Debt Coverage: MSHDA requires a debt coverage ratio of 1.10. “Debt service coverage ratio” is defined as the ratio of the property’s net operating income (rental income minus operating expenses and reserve payments) to foreclosable, currently amortizing debt service obligations.

Replacement Reserve: The Authority requires a replacement reserve, with the first year deposit to this reserve equal to $250 per unit for all senior new construction developments, expressed as a percentage of rental income and increasing over time as rental income increases. This increase reflects NCSHA’s Best Practice recommendation. The first year deposit to the replacement reserve for any direct lending proposal involving family new construction or rehabilitation will be equal to $300 per unit.

Vacancy Loss: Vacancy loss will be budgeted, at a minimum, at 5% of the gross rental potential. For developments in softer markets, as determined by the Authority’s Market Analyst, a higher vacancy loss may be required.

Operating Assurance Reserve: At the time of initial disbursement of mortgage loan proceeds, the mortgagor must establish an Operating Assurance Reserve (the “OAR”) equal to four months’ estimated operating expenses, payments required under the mortgage note, deposits to reserves and other anticipated development expenses. The OAR may be funded with cash or up to 50% with an irrevocable, unconditional letter of credit acceptable to the Authority. To the extent any portion of the OAR is used prior to the final closing of the mortgage loan, the mortgagor must restore the OAR to its original balance at final closing.

The OAR and any interest it accrues will be held by the Authority for a minimum of 15 full years of operation of the development and may be used in accordance with the Authority’s written policy on the use of the Operating Assurance Reserve, as amended from time to time.

In the 10th year of operation, the OAR will be used to fully fund the replacement reserve needs identified by an independent comprehensive needs analysis and to fully fund any other escrow accounts. If the amount required to fund escrows is represented by a letter of credit, the letter of credit will be drawn upon. The mortgagor may request approval of up to a 50% reduction/release in the remaining OAR. The Director of Asset Management may approve a release and/or reduction, based on a review of the development’s operations. All excess amounts released from the OAR (in connection with this or any future release) will be deposited into the development’s operating account and may be available to pay operating expenses, accumulated limited dividends or deferred developer fees.

Following the 15th full year of operation, OAR funds that are not needed for funding of the replacement reserve, or other escrows will be available for release to the development’s operating account and may be used for payment of accumulated limited dividends or deferred developer fee.

MSHDA Design Standards and the Design Review Process: MSHDA has adopted multifamily design standards that often exceed the requirements of local building codes. For this reason, the Authority’s staff will usually be involved in the preparation of architectural plans and specifications for developments that the Authority finances under the direct lending programs. Except as noted in the following paragraph, proposals with completed architectural documents are not acceptable, nor are proposals in which local site plan approvals have been issued prior to submission to MSHDA.

The Authority has authorized a program in which development teams with demonstrated success in the Housing Tax Credit program or with successful past experience in the Authority's direct lending programs may process on a "fast track," waiving the design review process in favor of a certification by the architect that the development will meet MSHDA's design standards. Development teams must request participation and meet the eligibility requirements. Contact MSHDA's Office of Multifamily Development for more information on this program.

Construction Contract Allowances: Consistent with Michigan's Qualified Allocation Plan for the use of Housing Tax Credit, the maximum allowances for builders to include in construction contracts are six percent of the contract amount for profit, two percent of the contract amount for overhead, and six percent of the contract amount for general requirements. The limitations differ under the HOME Team Advantage Program.

Underwriting Units with Rental and Occupancy Restrictions at 60 Percent of Area Median: For units restricted under the Housing Tax Credit program to occupancy by households with incomes at or below 60 percent of area median income, MSHDA will limit the maximum total housing expense (contract rent plus an estimate of tenant-paid utilities) to 95 percent of the maximum rent permissible under the Housing Tax Credit program. This limitation applies only for the purpose of determining the maximum mortgage that can be supported by the net operating income. For targeted units with rents fixed at lower levels (i.e., units targeted to be affordable at 30 percent or 50 percent of area median income), this 95 percent underwriting rule does not apply.

Absorption Period Escrow: The Authority will fund construction interest in an amount at least equal to the initial term of the construction contract plus three months. Mortgage amortization and monthly deposits to the replacement reserve will not commence until after the period for which construction loan interest has been provided in the mortgage.

In situations where the Authority projects an absorption period in excess of three months to achieve sustaining (95%) occupancy, the Authority may, at its sole discretion, extend the construction and initial rent-up period and require that additional interest, insurance, tax, and marketing reserves be budgeted. The mortgagor may elect to provide an unconditional, irrevocable letter of credit as security for this additional expense and may, upon achieving sustaining occupancy and providing evidence of 12 month leases at rents at least equal to the rents stipulated in the commitment, request in writing that the cut-off date be advanced and that the letter of credit be released.
Since this Absorption Period Escrow functions in many respects like a soft cost contingency, the Authority does not require additional contingency funding for non-construction line items.

Construction Contingencies: Construction contingencies will be required for all proposals involving rehabilitation, with the requisite contingency amount determined on a case-by-case basis. As a rule of thumb, rehabilitation contingencies of 10 percent of the construction contract amount should be anticipated. For new construction, the Authority will not require construction contingencies unless unusual site conditions are anticipated (such as buried debris or environmental remediation). The Authority will not object to the inclusion of contingency funds if required by the equity partner.

Developer Fees: The total development cost may include a developer fee, subject to the limitations of Michigan's Qualified Allocation Plan under which the Housing Tax Credit is administered. The developer fee for development of 49 units or less is 20 percent of the total development cost (excluding the developer fee, developer overhead, and consultant fees). The developer fee for tax-exempt loans for projects of 50-150 units is limited to 15 percent, not to exceed $2 million, and for taxable is 15 percent, not to exceed $1 million. This is calculated as 15 percent of total development cost minus developer fee, developer overhead, and consultant fees.

Developer Fee Holdback: The equity syndicator will generally require that developer fees be released in stages to the developer upon achieving certain benchmarks in performance. To the extent that it is not addressed by the agreement with the equity partner, the Authority will require that at least 10 percent of the developer fee be held back until the final mortgage loan closing.

Site Selection Criteria: The Authority has adopted Site Selection Criteria against which all proposed development sites are reviewed. A copy of this document is attached.

Marketing and Furnishings Allowances: Mortgages may include an allowance for project furnishings and equipment and a budget for marketing expenses. These allowances must be reviewed and approved by the Authority's Office of Asset Management prior to mortgage loan commitment.

WHAT ARE THE UNIQUE REQUIREMENTS OF A MSHDA LOAN?

First Mortgage Position: The Authority's mortgage loan must be secured by a first mortgage on the property. MSHDA's loans are non-recourse, in that the principals of the mortgagor entity will not be personally liable for repayment. Exceptions to the non-recourse nature of the loan are made for environmental liability, fraud, and other acts.

Targeted Occupancy Requirements: All of MSHDA's lending programs involve a restriction on the incomes and rents of the families or individuals residing in some or all of the units.
A minimum of 40 percent (and as much as 100 percent, at the option of the developer) of each of the unit types must be both income and rent restricted to be affordable to households with incomes at or below 60 percent of the area median income, adjusted for family size. The income limits set annually by the U.S. Department of Housing and Urban Development (HUD) and defining 30, 50, and 60 percent of area median income by family size, must be used for this purpose.

In these units, rents, inclusive of tenant-paid utilities, may not exceed 30 percent of 60 percent of area monthly median income as determined by HUD, assuming occupancy by one and one half persons per bedroom.
In most instances, whether due to local market conditions, a need to maximize the four percent Housing Tax Credit, or a need to compete more effectively for nine percent Housing Tax Credit, some portion of the units in the development will be targeted more deeply with rents set accordingly.

Rents on all units are also restricted to 105 percent of the levels stated in the Authority's commitment for the duration of the initial lease term of the first tenant occupying the unit. Rental increases in units targeted to households of limited income are limited to five percent during any 12-month period for any individual household.

For developments exclusively designed for and marketed to the elderly, or located in an "eligible distressed area," there are no further income or rental restrictions. If the development is for families and is located in a non-distressed area, the following state-imposed limits may also apply:

a) 15 percent of the units must be occupied by households with incomes at or below 125 percent of the area or state median income, whichever is higher;
b) 15 percent of the units must be occupied by households with incomes at or below 150 percent of the area or state median, whichever is higher;

Targeting requirements are different for the HOME Team Advantage Program. Please refer to that specific program statement.

"Eligible Distressed" Communities: Although MSHDA-financed developments are located throughout Michigan, certain incentives are given to developments located in communities characterized as "eligible distressed areas" under a definition established by the state legislature or otherwise authorized by the Authority. A listing of eligible distressed areas is attached. This list is reviewed and modified annually.

Return on Equity: All Authority loans limit the return that an owner can take on the equity investment in the project. Equity is defined as the total development cost, less the MSHDA mortgage and less any grants and “soft” or non-amortizing secondary financing.

For tax-exempt bond-funded loans, the Authority permits a return on the equity contribution of the owner of 12 percent in the first year following the cut-off date. This limit increases by one percent per year until a cap of 25 percent is achieved.

For loans funded under the Taxable Bond program, the return on equity is limited to 25% per year. For all loans, the return on equity is fully cumulative, in that it may accrue and be paid in the future when it becomes available.

Risk Sharing Insurance: MSHDA reserves the right, at its sole discretion, to require the information necessary from the applicant to obtain federal risk sharing insurance. Applicants may be advised at any time during processing that risk sharing insurance will be required. It is anticipated that preservation loans involving project-based rental subsidies, and loans with unusual development factors, such as environmental remediation, will require risk-sharing insurance.

Cost Certification: The contractor and the mortgagor must submit timely certifications of the actual costs incurred in developing and building the project. A more detailed Cost Certification Guide is available upon request.

Loan Management: MSHDA’s Asset Management staff protect the Authority’s interests by monitoring a development’s operations for compliance with controlling documents, and financial and physical condition, through a variety of reporting systems. These systems include electronic submission of monthly income and expense statements, review and approval of annual budgets and audits, approval of the use of reserves, and other required reports. A development’s compliance with resident income eligibility, rental restrictions, and physical inspections is monitored by MSHDA’s Compliance Division.

Sale or Refinancing: MSHDA's mortgage loan documents generally prohibit prepayment of the loan for 20 years. (Prepayment of a “HOME Team Advantage” loan is prohibited entirely.) The transfer of general partnership interests or the sale to limited investors is allowed with MSHDA’ s prior approval.

Environmental Indemnification: The borrower will be required to indemnify the Authority against any loss, liability, or expense resulting from any violation of environmental law. MSHDA requires detailed disclosure of potential or actual environmental contamination and may decline proposals that present an unacceptable level of risk or future liability.

Equal Opportunity: The Authority requires a plan from the contractor to provide equal opportunities for minority and female-owned subcontractors and material suppliers and to provide jobs for minority and female members of the workforce. The management agent is required to aggressively and affirmatively market the units to minority groups.

WHAT UNIQUE POLICIES SHOULD WE KNOW ABOUT?

"Interim" or "Bridge" Loans: It is expected that the equity requirements will be met by investor payments from the syndication of the Housing Tax Credit. MSHDA will advance sufficient funds to complete the project, over and above the permanent loan amount, as an interim loan in anticipation of delayed equity contributions. These "bridge" or interim loans are secured by an assignment of the limited investor promissory notes, a lien on the property, and the personal guarantees of the general partner(s). The interim loan, when added to the permanent loan, can never be more than 90 percent of total development cost. The interest rate on the interim loan is the same as on the construction and permanent loan. Interim loan proceeds may not be used to pay developer fees, and at least 90 percent of all equity contributions are applied to repayment of the interim loan until it is fully retired. See MSHDA Development staff for more information.

Small Size and High Security Area Loans: Under certain circumstances, the Authority may make annual interest-free loans available to compensate for 1) the relatively small size of a development, or 2) the need for higher than normal security measures at a development. (See MSHDA Development staff for more information.)

Mortgage Loan Increases: At the final mortgage loan closing, MSHDA may consider a request for a mortgage loan increase if the owner can demonstrate the capacity of the project to support more debt. Loan increases can be approved for:

1) construction change orders that add value to the property; and
2) cost-certified overruns in soft cost line items.

Loans will not be increased for construction cost overruns that are not supported by approved change orders.

Interest-Free Construction Loans: The Authority may consider, at its sole discretion, the making of construction loans on an interest-free basis, using federal HOME funds available to the Authority. To be eligible, all units within the development must be targeted at Housing Tax Credit income levels or below. In addition, the project must be sponsored by a non-profit corporation with a demonstrated history of providing housing and services to special needs tenants, designed to serve a special needs population, and receive a long term HOME commitment. It should be noted that the use of HOME funding for construction loans includes a federal requirement that the contractor adhere to Davis/Bacon wage scales and work rules.

WHAT ARE THE BASIC STEPS OF LOAN PROCESSING?

The Authority will underwrite the direct lending proposals using staff expertise from the Design and Technical Resources, Market Analysis, Asset Management, Legal Affairs, and Development Divisions. The basic steps in the development process are:

a) Preliminary conference (optional)
b) MSHDA receives proposal, makes initial determination of site acceptance and development team capability
c) Initial selection/acceptance for processing
d) Mortgage loan feasibility
e) Mortgage loan commitment

Step (b), "Initial Determination," requires a recommendation by MSHDA' s underwriting committee and both this step and step (c), "acceptance for processing," require a decision by the Chief Underwriter. Step (d), "Mortgage Loan Feasibility," requires both underwriting committee review and approval by the Authority Members. The Executive Director issues the mortgage loan commitment when all of the conditions to the loan have been satisfied. Authorization to issue this commitment must be given by the Authority Members. Depending on the complexity of the loan, the Authority may give this authorization at the time of mortgage loan feasibility or it may be reserved for a second Board-level review.

HOW DO I OBTAIN MORE INFORMATION AND A COMBINED APPLICATION?

Developers are encouraged to talk with MSHDA' s Multifamily Development staff before submitting an application so there is full understanding about the program requirements. It should be noted, however, that staff members do not have the authority to screen potential sites or to offer pre-approval or rejection. The Authority's Chief Underwriter is the only individual authorized to accept proposals for processing, an action taken only after the full underwriting committee makes a recommendation.

For any additional information on the direct lending programs, or to schedule a meeting with the development staff of MSHDA, please contact:

www.michigan.gov/mshda: Developers and Contractors tab, MSHDA's Combined Application for Rental Housing Programs
OR Contact:
Office of Multifamily Development and Construction
Michigan State Housing Development Authority
735 East Michigan Avenue
P.O. Box 30044
Lansing, Michigan 48909
Telephone (517) 373-6880
Fax: (517) 335-6565

ATTACHMENTS: HOME Team Advantage Program Statement
Site Selection Criteria

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

HOME TEAM Advantage
Program Description for Multifamily Tax Exempt, Tax Credit, HOME Loans
Revised February 25, 2004

Program Summary: The HOME TEAM Advantage program utilizes a variety of Authority resources to provide a comprehensive financing package for developments of 12-49 units **(minimum of 24 units is recommended)** in communities in the non-urban areas of Michigan. Generally, a maximum of 49 units per community will be considered, although rehabilitation proposals up to 100 units may be considered in non-urban communities, if targeting criteria is met. The program provides construction loans, fixed rate permanent mortgages, Housing Tax Credit, and HOME funds designed to complement and enhance the feasibility of projects located in the non-urban traditional areas of commerce of the state. Projects designed for elderly occupancy are limited to 50% of the total production under this program.

The Michigan State Housing Development Authority has reserved $3,000,000 of HOME funds for the HOME TEAM Advantage Program in 2004.

Eligible Areas: Project sites must be located in non-urban areas (see attached list of MSHDA-defined urban areas) and must meet targeting criteria identified on the attached checklist. In addition, any proposal awarded funding under the USDA Rural Development Section 515 program is eligible to participate in HOME TEAM Advantage.

Loan Term and Interest Rate: The program features tax-exempt bond-financed 35 year, fully amortizing, first mortgage loans generally not less than 55% of the project's total development cost. The interest rate for this program will be one percentage point below the applicable TEAM lending rate. The specific interest rate and a reservation of HOME funds will be assigned at acceptance for processing and will be valid for 6 months. A proposal not achieving mortgage loan feasibility within 6 months of acceptance may lose the HOME reservation or be subject to an increase in the interest rate to close.

Housing Tax Credit: The 4% Housing Tax Credit for qualified units financed with tax-exempt bond proceeds meet the requirements of Michigan's Qualified Allocation Plan without the need to compete. Participation in the Housing Tax Credit program is generally required and all requirements and underwriting standards of the Qualified Allocation Plan will apply.

HOME Investment Partnership Funding: The minimum amount of HOME funding will be $1,000 per unit. The maximum amount of HOME assistance will be the lesser of (1) the equity gap as determined by MSHDA, (2) $16,000 per unit multiplied by the total number of units in the development.

HOME assistance will be provided as a non-amortizing subordinate mortgage to be repaid from:

-Twenty-five percent of any cash distribution to the project owner, as determined by an independent annual audit of project income and expenses;

-The proceeds of any refinancing or sale designed to alter the low-income character of the residents of the development. In this event, the full subordinate HOME loan will be accelerated and become immediately due and payable; and

-Project operating revenue following repayment of the first mortgage. The outstanding balance of the HOME loan will become the new first mortgage and begin to bear interest at the same rate as the original mortgage with monthly mortgage payments equal to the payments under the original first mortgage.

Determining the Number of HOME Units: The number of HOME designated units will be calculated using the amount of HOME funds necessary for project feasibility, as determined by MSHDA (see preceding section), divided by the lesser of the per unit total development cost or the federal HOME subsidy limit, not to exceed 11 units. HOME-designated units will be subject to a minimum 20-year affordability period, beginning after project completion.

Income Limits: A minimum of 10% percent of the total number of units must be available to or occupied by households with incomes at or below 30% of the area median income, adjusted for family size. Up to 10% of the units may be market rate. The remaining units must be occupied by households with incomes at or below 60% of the area median, adjusted for family size. These income restrictions will satisfy the income limits imposed by the Authority's Act, the Housing Tax Credit Program and the HOME Investment Partnership Program and will continue as long as the Authority's mortgage is outstanding. The income of households and the area median gross income shall be determined in a manner consistent with such determinations under Section 8 of the U. S. Housing Act of 1937.

Restrictions requiring the occupancy of units by families with incomes of less than 30% of the area median income may be waived by MSHDA if such a requirement is determined to jeopardize the financial feasibility of the project. In addition, and only where MSHDA determines that it is necessary to maintain the financial of the project, more than 10% of the units in the development may be designated as market rate rentals.

Rental Restrictions: Ten (10%) percent of the units will be rent restricted (inclusive of an estimate of tenant paid utilities) to 30% of 30% of the area monthly median income. These units will be occupied by Extremely Low Income households with incomes at or below 30% of the area median income, adjusted for family size, as defined by HUD. The restricted rent calculation will be based on an occupancy assumption of one and one half persons per bedroom. This criterion may be waived by MSHDA if its imposition results in the debt financing totaling less than 55% of the total development cost.

Rents (inclusive of an estimate of tenant-paid utilities) on any of the remaining units that are targeted for Tax Credit occupancy will be restricted to 95% of 30% of 60% of area monthly median income as established by HUD. The restricted rent calculation will be based on an occupancy assumption of one and one half persons per bedroom. In some situations as noted below, the use of HOME funds will require further rental restrictions.

Rental increases during any 12 month period will be limited to not more than 5% of the rent paid by the resident household at the beginning of that annual period. Exceptions to this limitation may be granted by the Authority's Director of Asset Management for extraordinary increases in project operating expenses (exclusive of limited dividend payments). Rents on vacated units may be increased to the maximum level permissible by the program.

Notwithstanding the above rental restrictions, all HOME-assisted units in a rental project must be occupied only by households that are eligible as low-income families, defined as families whose annual income does not exceed 60% of the median family income for the area and have rents not to exceed the lesser of the Existing Section 8 Fair Market Rent (FMR) as established by HUD or the high HOME rents as established by HUD. In rental projects with five or more HOME-assisted rental units, 20% of the HOME-assisted units must be occupied by very low-income families and have rents not to exceed the lesser of the FMR, the low HOME rents, or a rent that does not exceed 30% of the annual income of a family whose income equals 50% of the median income for the area, as determined by HUD.

Developer Fees: The total development cost may include a developer fee, subject to the limitations of Michigan's Qualified Allocation Plan under which the Housing Tax Credit is administered.

Limitation for Return on Equity: Limited dividend distributions (return on equity) will be limited to 12% for the first year commencing with the cut-off date and will increase by 1% per year until a cap of 25% is reached. The return is fully cumulative.

"Total Development Cost" shall include all costs incurred in the development and construction of the project as supported by the mortgagor's cost certification. "Equity" shall include all cash investment by any partner. "Equity" does not include any grant funds or any secondary, non-amortizing financing from sources such as HOME, CDBG, and the Federal Home Loan Bank Affordable Housing program.

Tax Abatement Requirement: A project selected for the HOME TEAM Advantage Program must enter into an agreement with the local community to pay a service fee in lieu of real property taxes for a period not less than the term of the first mortgage.

Design Standards: Projects will be required to be designed and constructed according to MSHDA's Standards of Design with exceptions as listed in Design Appendix C.

Underwriting: A modified version of the traditional MSHDA underwriting process will be used for this program, with an abbreviated underwriting sequence and a combination feasibility/commitment report for Authority action.

The process will begin with the receipt of a complete application and the presentation of the project to the Authority's underwriting committee within 30 days to consider the acceptability of the proposed site and development team. If approved at this step, the project will be assigned a MSHDA number and begin formal processing. Acceptance for processing will enable the proposal to be reviewed for participant financial capacity, market, environmental and legal issues that could be the basis for termination or allow the project to continue. A final underwriting will occur prior to the presentation of the proposal to the Authority Board for Mortgage Loan Feasibility/Commitment.

Construction Contract Allowances: Line item allowances within the construction contract for builder profit, builder overhead, and general requirements may not exceed an aggregate of 20% of the total construction contract amount.

Financing Fees: A non-refundable application fee of $500 must be submitted with any proposal for mortgage loan financing. Additionally, a non-refundable filing fee of .50% of the proposed mortgage amount will be charged for projects presented to the Authority Board for a combined Mortgage Loan Feasibility/Commitment authorization. These non-refundable fees are credited toward a 2% commitment fee that is paid at the initial loan closing.

LIHTC Fees:

Application: All applications must be accompanied by cash or a check in an amount equal to $35 for each proposed low income unit, with a $1,500 maximum limit.

Reservation/Commitment: The Authority will later bill a fee equal to 6% of the annual tax credit dollar amount awarded to a project. A sum equal to 3% of the annual tax credit dollar amount shall be billed at the time of Reservation. The remaining 3% will be billed at Commitment.

Compliance Monitoring: A compliance fee of $300 per low income unit, which amount will cover the entire monitoring period, will be billed prior to issuance of Form 8609.

The application and filing fees will be waived for nonprofit sponsors who will retain 51% or more of the general partnership interest. A nonprofit sponsor will be required to pay the full 2% commitment fee at the initial loan closing.

Cost Certification: Cost certification is required of both the mortgagor and the contractor.

Labor: Every contract for the construction of housing under this program that includes 12 or more HOME-designated units must contain a provision requiring the payment of not less than the wages prevailing in the locality, as predetermined by the Secretary of Labor pursuant to the Davis-Bacon Act, to all laborers and mechanics employed in the development of any part of the housing.

Inclusion of all Sources and Uses: The development proforma will include a recitation of all sources and uses of funds. Sources include, without limitation, the MSHDA mortgage loan, total contributions from equity investors, general partner capital contributions and deferred developer fees, secondary financing, and any grants. Uses include, without limitation, direct project costs (construction contract, professional fees, non-construction "soft costs," and land), a maximum 20% developer fee, tax credit fees, all legal and accounting costs to be paid by the partnership directly related to the development of the project whether or not included in the eligible basis, and reserves as may be required by the syndicator.

Prepayment Restrictions: Mortgages provided under the HOME TEAM Advantage Program will not be prepayable for any reason. The approval by MSHDA of changes in project ownership will require at a minimum the new owners' acceptance of all rental and income restrictions.

Operating Assurance Reserve: At the time of initial disbursement of mortgage loan proceeds, the mortgagor must establish an Operating Assurance Reserve (the "OAR") equal to four months' estimated operating expenses, payments required under the mortgage note, deposits to reserves and other anticipated development expenses. The OAR may be funded with cash or up to 50%

with an irrevocable, unconditional letter of credit acceptable to the Authority. To the extent any portion of the OAR is used prior to the final closing of the mortgage loan, the mortgagor must restore the OAR to its original balance at final closing.

The OAR and any interest it accrues will be held by the Authority for a minimum of 15 full years of operation of the development and may be used in accordance with the Authority's written policy on the use of the Operating Assurance Reserve, as amended from time to time.

In the 10th year of operation, the OAR will be used to fully fund the replacement reserve needs identified by an independent comprehensive needs analysis and to fully fund any other escrow accounts. If the amount required to fund escrows is represented by a letter of credit, the letter of credit will be drawn upon. The mortgagor may request approval of up to a 50% reduction/release in the remaining OAR. The Director of Asset Management may approve a release and/or reduction, based on a review of the development's operations. All excess amounts released from the OAR (in connection with this or any future release) will be deposited into the development's operating account and may be available to pay operating expenses, accumulated limited dividends or deferred developer fees.

Following the 15th full year of operation, OAR funds that are not needed for funding of the replacement reserve, or other escrows will be available for release to the development's operating account and may be used for payment of accumulated limited dividends or deferred developer fee.

Absorption Period Escrow: The Authority will fund construction interest in an amount at least equal to the initial term of the construction contract plus three months. Mortgage amortization and monthly deposits to the replacement reserve will not commence until after the period for which construction loan interest has been provided in the mortgage.

In situations where the Authority projects an absorption period in excess of three months to achieve sustaining (95%) occupancy, the Authority may, at its sole discretion, extend the construction and initial rent-up period and require that additional interest reserves, taxes, insurance, and marketing expenses be budgeted. The mortgagor may elect to provide an unconditional, irrevocable letter of credit as security for this additional expense and may, upon achieving sustaining occupancy and providing evidence of 12 month leases at rents at least equal to the rents stipulated in the commitment, request in writing that the cut-off date be advanced and that the letter of credit be released. Since this Absorption Period Escrow functions in many respects like a soft cost contingency, the Authority does not require additional contingency funding for non-construction line items.

Equity Requirements to Close: The minimum equity requirement for for-profit mortgagors will be 10% of the Total Development cost, of which at least 1½ % of the Total Development Cost must be paid in cash at the initial loan closing. Interim or "bridge" loans will be considered on a case-by-case basis, following full disclosure of the terms of the equity syndication. At Initial Closing, the mortgagor must provide cash, irrevocable letters of credit, and/or unconditional promissory notes from the equity investors sufficient to meet the full equity requirements under the loan.

Attachments

HOME TEAM Targeting Checklist
HOME TEAM Advantage Design Appendix C
List of Urban Areas

MSHDA 2004 HOME Rental Targeting Criteria

MSHDA will consider HOME Team Advantage applications in non-urban communities where the development proposal will support and enhance the following characteristics:

- Diversity in Income: Create rental developments which provide opportunities for persons of diverse incomes, especially by:
  - Expanding the income mix within the housing development to serve both very low income households and to motivate market rate tenants to live in distressed or transitional target areas; and
  - Enabling lower income households to live in communities that might not otherwise be affordable.

- Diversity of housing types within the community/target area
  - Single family houses (attached and detached)
  - Townhouses or row houses (ownership and rental)
  - Coach houses/carriage houses/granny flats/apartments over garages
  - Flats/apartments/home owner units over storefronts
  - Apartment buildings.

- Positive architectural/community patterns which are reinforced or developed through rental developments and mixed use projects which:
  - Respect the historical significance of the built community
  - Support existing street and pedestrian traffic patterns
  - Enhance traditional commercial centers, where applicable
  - Demonstrate scale (number of stories, land mass, etc.) consistent with surrounding neighborhood
  - Retain face block (same set-back as surrounding buildings)
  - Reflect architectural elements of neighborhood (exterior materials and colors, roof pitch, overhang, window proportion, etc.)
  - Create inviting public space
  - Enhance community commerce by promoting pedestrian access to schools, shops, parks, etc.

Attached is a checklist of factors that will be considered as MSHDA reviews and approves funding for 2004 HOME Team Advantage loan applications in non-urban communities. MSHDA Multifamily staff will be available to review potential projects and target areas to assist developers in assessing potential proposals.

Developers should not rely on this preliminary assistance when deciding whether or not to submit a full loan application.

2004 HOME TEAM Advantage Targeting
Checklist

The purpose of this checklist is to determine the eligibility of rental development proposals for 2004 HOME Team Advantage. Proposals must meet a preponderance of the criteria to be accepted for HOME Team processing.

Date: ______________________
Development Name: ________________
Location: __________________________
Sponsor: __________________________
HDO: ____________________________
CD Specialist: ______________________

Total Units _____________________
Family _____ **Elderly** _____
_____ **New Construction**
_____ **Rehabilitation (Current use)**
______**Non-residential aspect (describe)**

1. The project is an essential component of a comprehensive community revitalization strategy;
2. The project is part of a strategy to create low-income housing opportunities in a higher cost setting or areas characterized by economic growth; AND
3. The project is located in a targeted area as determined by this score sheet.

Check all that apply to the community, target area, or project:

____**Core Community**
____**County Seat**
____**Mainstreet**
____**Blue Print**
____**Renaissance Zone**
____**Empowerment Zone**
____**Enterprise Community**
____**Vision 2020**
____**Brownfield Redevelopment**
____**Historic Tax Credit**
____**Neighborhood Enterprise Zone**
____**Obsolete Building Rehabilitation Act (OBRA)**

Proposals must generally demonstrate a preponderance of the following attributes:

A. Local Support and Resources (must meet at least 2)

____Led by local initiative and resources (local planning, effective local priority-setting, etc.) Explain: ____

____Desire to seek other designations/funding (Indicate which are being considered, such as NEZ, Brownfields, NPP, New Market Tax Credits, Historic Designation, Recreation Plan for DNR funding):

Explain: ____

____Local investment, providing a range of supports, such as, federal funds, bond proceeds, new ordinances or strengthened enforcement of property maintenance codes, infrastructure investment, etc.

Explain ____

B. Public Infrastructure Capacity in the target area (must meet at least 4)

____Existing public utilities
____Schools within/adjacent to neighborhood
____Parks
____Fire and police
____Public Transportation
____Sidewalks
____Bike trails, river walks
____Other, describe:____

C. Prospects for Success (must meet at least 4)

____Community impact evidenced by leveraging of other resources
____Avoids over-concentration of rental units
____Viable and capable business sector
____A vision for the future, delineated by a local plan
____Manageable environmental challenges
Describe: ____

D. Characteristics of the project and/or site (must meet at least 4)

____Supports the economic vitality of traditional center of commerce
Describe: ____
____Walkable connections to services/nodes of activity (i.e., within 1/4 mile)
____Existing residential character and/or appropriate for the creation or enhancement of residential character
____Access to quality public space, such as parks or other recreation activities
____A sense of history and place
Describe: ____
____Appropriate separation of vehicles from pedestrian traffic; appropriate traffic volume
____Assets/attractions to build on (e.g. water, historical resources, recreational opportunities, strong local institutions)
Describe: ____

Appendix C

<u>HOME TEAM Advantage Program</u>
<u>Modifications to the MSHDA Standards of Design</u>

For all developments with 50 or more units the full <u>MSHDA Standards of Design</u> apply.
For all developments with less than 50 units the same <u>Standards</u> shall apply with the following allowable modifications.

00020. Mechanical and electrical design may be carried out by the architect as permitted by the Michigan Building Code.

00040 The use of HOME funding will require compliance with all applicable Federal regulations. The HOME TEAM Advantage Program requires compliance with the Uniform Federal Accessibility Standards. Under UFAS, the required number of units designed to barrier free standards is 5% of the total number of units. HOME funds require an additional 2% of the units be made accessible for persons with hearing and vision impairments. (Refer to HUD 24 CFR Part 8) (Refer also to **00010**.)

00100 Design Review Process
On a development by development basis some streamlining of the Design Review Process will be attempted. Primarily the streamlining will be based on whether the proposed units and buildings have been previously built and are successfully being rented. Reviews may be written with no meeting for Commitment level review. The need for mechanical and electrical reviews will be evaluated.

00150. Community space is not required for family developments, however the development team must satisfactorily provide for office and maintenance operations.

02001.11 In **<u>family</u>** developments, the <u>limited</u> use of dead end parking lots will be allowed. Safety and convenience should not be significantly sacrificed. Dead end lots shall be limited to a maximum of 5 car widths.

02001.12 In **<u>family</u>** developments, the <u>limited</u> use of parking along a collector road will be allowed. Safety and convenience should not be significantly sacrificed.

02001.18 All drives and parking areas need not be curbed. The extent of curbing shall be based on safety and maintenance. The extent of curbing should be consistent with the community. Parking should be designed to maximize the use of turned down sidewalks / curbs (thickened walks). Place curbing at radii and include provisions for plowing snow.

Appendix C
HOME TEAM Advantage Program Modifications to Standards

02001.2 Provide walks as required by the local municipality and as necessary to travel from parking to the building entries.

02780.1 Site lighting should be consistent with the surrounding community and avoid a neighborhood “glow”. Lighting should be designed for the safety of the residents travel to and from parked cars. In **<u>family</u>** developments, some lighting can be from building mounted lights, however, building mounted lights must avoid glare which compromises visibility for pedestrians or drivers.

02810.1 Irrigation is not required, however, some method of watering must be provided.

02900. Shade or canopy trees shall not be less than 2" caliper. Indigenous plant materials should be used. The use of evergreen seedlings for screening is encouraged.

02930. The use of sod may be limited. Establish a lawn with seeding.

06010. The use of vinyl trim in lieu of painted wood to reduce maintenance is encouraged. An exception to this standard is the requirement to provide a detail for shrinkage at the band joist. (Refer to **07460** of the Standards of Design.)

Michigan Urban Areas – February 18, 2004

Bay County:

Bay City
Bangor Township
Hampton Township
Kawkawlin Township
Monitor Township

Berrien County:

Benton Harbor City
St. Joseph City
Benton Charter Township
Lincoln Charter Township
St. Joseph Charter Township

Calhoun County:

Battle Creek City
Bedford Township
Emmett Township
Pennfield Charter Township

Clinton County:

Bath Township
Dewitt Township

Eaton County:

Delta Charter Township
Windsor Charter Township

Genesee County:

Entire County is Urban

Ingham County:

Lansing City
East Lansing City
Delhi Charter Township
Lansing Charter Township
Meridian Charter Township

Jackson County:

Jackson City
Blackman Township
Columbia Township
Leoni Township
Napoleon Township
Spring Arbor Township
Summit Township

Kalamazoo County:

Kalamazoo City
Portage City
Comstock Township
Cooper Township
Kalamazoo Township
Oshtemo Township
Pavilion Township
Richland Township
Ross Township
Schoolcraft Township
Texas Township

Kent County:

Entire County is Urban

Livingston County:

Entire County is Urban

Macomb County:

Entire County is Urban

Monroe County:

Entire County is Urban

Muskegon County:

Muskegon City
Muskegon Heights City
Norton Shores City
Egelston Township
Fruitport Township
Laketon Township
Muskegon Township

Oakland County:

Entire County is Urban

Ottawa County:

Entire County is Urban

Saginaw County:

Saginaw City
Birch Run Township (Flint/Genesee)
Bridgeport Charter Township
Buena Vista Charter Township
Carrollton Township
Saginaw Charter Township
Thomas Township
Tittabawassee Township

St. Clair County:

Entire County is Urban

Washtenaw County:

Entire County is Urban

Wayne County:

Entire County is Urban

REQUIREMENTS FOR

ERRORS AND OMISSIONS INSURANCE

FOR ARCHITECTS AND ENGINEERS

The Authority requires that design and/or supervisory architects performing services for Authority-financed developments retain effective professional liability insurance in form, amount, and term satisfactory to the Authority. It is intended that the information set forth below shall assist architects in providing such coverage. Please note the adjustment to the duration requirement as submitted to and approved by the Authority Board on October 28, I986.

SUBMISSION TO THE AUTHORITY, EFFECTIVE DATE, AND DURATION

All architects must furnish evidence of professional liability insurance satisfactory to the Authority prior to the date of submission of any preliminary drawings and/or specifications to the Authority. The insurance policy must be in full force and effect as of the date of submission, and must be kept in effect for a period of one year after substantial completion.

AMOUNT OF COVERAGE

Architect		Amount of Coverage
Design and Supervisory		
low-rise	(1 thru 3 floors)	$250,000.00
mid-rise	(4 thru 6 floors)	$500,000.00
high-rise	(7 floors and above)	$750,000.00
Design only		
low-rise	(1 thru 3 floors)	$250,000.00
mid-rise	(4 thru 6 floors)	$500,000.00
high-rise	(7 floors and above)	$750,000.00
Supervisory only		
low-rise	(1 thru 3 floors)	$150,000.00
mid-rise	(4 thru 6 floors)	$325,000.00
high-rise	(7 floors and above)	$500,000.00
MR Projects		$100,000.00

Rehab Projects 25% of construction amount or the amount required for new construction, whichever is less. (This requirement is waived if no structural modifications or corrections are involved.)

Michigan State Housing Development Authority

"FAST TRACK" PROCESSING REQUIREMENTS

In 1999, the Authority authorized a pilot program in which development teams with demonstrated success in the Housing Tax Credit program or with successful past experience in the Authority's direct lending programs may process on a "Fast Track", waiving the design process in favor of a certification by the architect that the development will meet MSHDA's design standards.

The pilot program is available to development teams that request participation and meet certain eligibility requirements as detailed in the Criteria for Qualifying "Fast Track" Development Team Members. The sponsor/developer will, in all cases, be responsible for the actions and performance of all members of the development team and will become ineligible for "Fast Track" processing if any other member of the development team loses eligibility. In addition, sponsors must final close the loan within 6 months of the completion of construction. Authority acceptance for "Fast Track" processing is a privilege that can be revoked for poor performance.

"Fast Track" processing will only be available for new construction and involves three significant changes to MSHDA's Housing Development Process as follows:

1. For family projects, the design review process will be eliminated. For elderly projects, a single, Feasibility-level design review will take place. Proposals for which final plans and specifications have been completed may be accepted for processing. Adherence to threshold MSHDA design standards will be required in all cases. At closing, the architect will be required to certify that the proposed development complies with all of these design standards.

2. The management planning process will be eliminated for agents that remain certified to manage MSHDA-financed developments. The management and marketing agent will be required to submit; 1) an initial operating budget, with supporting documentation, 2) a marketing budget, and 3) a furnishings and equipment budget. Prior to Initial Mortgage Loan Closing, the management agent must submit; 1) the management agreement, 2) the marketing agreement, 3) power of attorney, and 4) certification of owner and agent. This information must be reviewed and approved by the Authority's Director of Management and Reinvestment prior to any Board action.

3. The Authority Board will be asked to review a development proposal once, at approximately the point of Mortgage Loan Feasibility. Proposals containing a large number of Conditions in the staff report at this point in development processing will not be presented to the Board. For example, minor issues such as architect's insurance or pending disbursement clauses

will not be conditioned. The Authority Board will only be asked to review a proposal a second time if; 1) the proposed mortgage changes by more than 5%, or 2) the Executive Director determines that there has been a significant event or material change in circumstances that would warrant Board consideration.

When the direct lending application is submitted the sponsor(s) may request Authority consideration of the proposal under the "Fast Track" processing alternative. Upon receipt of this written request, Authority staff will evaluate the development team according to the Criteria for Qualifying "Fast Track" Development Team Members (attached). The sponsor(s) will be notified of the Authority's decision within ten (10) working days from the receipt of the complete application, including Addendum IV exhibits.

Prior to the Authority's determination of Mortgage Loan Feasibility, the sponsor must submit necessary documents detailed in the Submission for "Fast Track" Feasibility Design Approval; return the completed Feasibility Certificate for "Fast Track" Design Compliance (Tab CC); and fully executed MSHDA Owner-Architect Agreement (Legal form 023 – see Tab BB).

The architect must submit architectural closing documents in accordance with the MSHDA Standards of Design. Non-conformance to these standards must be identified by the architect on the Feasibility Certificate for "Fast Track" Design Compliance (Tab CC). Prior to Initial Mortgage Loan Closing the architect must execute the Initial Closing Design Architect's Certificate (Tab DD) for "FAST TRACK" processing.

After closing, Authority staff will monitor the construction of the development for compliance with the MSHDA Standards and the signed architectural drawings and specifications.

Following substantial completion of construction and within thirty (30) days after final mortgage loan closing, Authority staff will evaluate the development team's performance and determine their continued eligibility for "Fast Track" processing according to the Criteria for Determination of Future Eligibility for "Fast Track" Processing. This review will include an inspection of the development to assure that MSHDA design standards and principles were followed.

NOTE: ***Request for consideration of "Fast Track" processing must be submitted in writing in a cover letter accompanying the direct lending application. The application, including all supplemental documentation per the Addendum IV Checklist, must be complete.***

S:Administration/Forms/Fast Track/Processing Requirements.wpd
July 7, 1999, Rev. 10/20/99

Criteria for Qualifying "Fast Track" Development Team Members

Developer / Sponsor
All For-Profit Developer / Sponsors must meet the normal multifamily requirements to have a net worth of at least five per cent of the proposed mortgage and sufficient liquid assets to meet the cash for Closing requirements.

A) Developers with MSHDA Experience:

The developer must have participated in MSHDA's full "Housing Development Process" within the past five years, developing housing of a similar size and type i.e. family, elderly.

B) Developers without sufficient MSHDA Experience:

The developer must demonstrate the successful completion and operation of a Housing Tax Credit development in Michigan of a similar size and type i.e. family, elderly, to the development being proposed. MSHDA senior Underwriting Committee staff (a majority of: the Director, the Deputy Director, the Director of Development, the Director of Legal Affairs, the Chief Architect, the Chief Market Analyst, and the Director of Management) shall review the completed development with particular attention to design, project management and Tax Credit compliance. The development(s) must be substantially equal in quality and curb appeal to a typical and similar MSHDA financed development.

Architects
All architects must meet the MSHDA requirements for Errors and Omissions Insurance. See attached: "Requirements for Errors and Omissions Insurance for Architects and Engineers."

A) Architects with MSHDA Experience:

The architect (partner-in-charge) and the architecture firm:

1. Must be licensed (partner-in-charge only) in the State of Michigan;

2. Must have had positive previous MSHDA Design Review experience, successfully designed and Initial Closed a MSHDA development within the last five years and that development, must not have had Change Orders necessitated by errors or omissions, code compliance or remedial compliance with MSHDA Standards of Design in excess of 2% of the original Construction Contract amount; and

3. Must have previous experience which includes the design and preparation of construction documents for four previous housing developments of similar size and type i. e. family, elderly, to the development being proposed.

4. Based on the architect's past MSHDA experience, the Chief Underwriter may determine that the architect is not eligible for the Fast Track process.

B) Architects without MSHDA Experience or with minimal MSHDA Experience:

The architect (partner-in-charge) and the architecture firm:

1. Must be licensed (partner-in-charge only) in the State of Michigan;

2. Must have previous experience which includes the design and preparation of construction documents for four previous housing developments of similar size and type i. e. family, elderly, to the development being proposed.

3. Must have, within the last four years, successfully designed a built development which was financed through the Housing Tax Credit program and is located in Michigan and which, in the opinion of the MSHDA review team is substantially equal in quality and curb appeal, to a typical and similar MSHDA financed development.

Builders
All Builders must meet the Authority’s requirement for working capital to meet day to day operating expenses. The Authority requires the builder to have three per cent of the proposed contract available in liquid assets. The Builder will also be required to post either a Letter of Credit ensuring the successful completion of the job equal to 25 per cent of the construction contract OR separate, one hundred per cent, Performance and Payment bonds. MSHDA may require evidence of the Builder’s bonding capability at any time in the development process.

A) Builders with MSHDA Experience:

The builder must have been the builder of record and successfully participated in MSHDA’s full “Housing Development Process” within the past five years constructing housing of a similar size and type i.e. family, elderly.

The builder must have met, or made a “good faith effort” to meet, the established EEO goals for their last two MSHDA financed developments.

B) Builders without sufficient MSHDA Experience:

The builder must have been the builder of record and demonstrate the successful completion of a Housing Tax Credit development in Michigan of a similar size and type i.e. family, elderly, to the development being proposed. The development(s) must, in the opinion of the MSHDA review team, be substantially equal in scope and quality, to a typical and similar MSHDA financed development.

Management Agents
Management Agents have to be certified by MSHDA as eligible to manage MSHDA-financed developments.

S:Administration/Forms/Fast Track/Development Team Criteria.wpd
July 7, 1999, Rev. 10/20/99